

CAPITALIZATION OF COSTS OF PLANTING ALMOND GROVES

DECEMBER 14, 1970.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means,
submitted the following

REPORT

[To accompany H.R. 19242]

The Committee on Ways and Means, to whom was referred the bill (H.R. 19242) to amend section 278 of the Internal Revenue Code of 1954 to extend its application from citrus groves to almond groves, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Page 2, immediately before line 8, insert:

(d) Subsection (b) (2) of such section 278 is amended to read as follows:

“(2) planted or replanted before—

“(A) December 30, 1969, in the case of a citrus grove, or,

“(B) December 30, 1970, in the case of an almond grove.”

I. SUMMARY

Present law requires that expenditures incurred in the first 4 years of the development of a citrus grove must be capitalized and written off over the life of the grove rather than expensed and deducted in the year the expenses were paid or incurred. This bill extends the same rule to almond groves. The provision applies to trees planted on and after December 30, 1970.

This bill is reported unanimously by your committee, and the Treasury Department has indicated that it has no objection to its enactment.

II. REASONS FOR THE BILL

Generally, taxpayers engaged in the business of farming can use the more liberal cash accounting rules which are available for computing income or loss from farming but which are not generally applicable to other forms of business. The Tax Reform Act of 1969 limited the appli-

cation of this provision, however, in the case of those engaged in the farming business of purchasing, planting, cultivating, maintaining, or developing a citrus grove. In this case that act provided that expenses incurred for the purposes specified above through the fourth taxable year (beginning in the year in which the trees were planted) were to be treated as capital expenditures rather than as currently deductible expenses. As a result in this case, the expenses must be written off over the life of the grove rather than in the year the expense is paid or incurred.

The provision described above, however, does not apply in the case of expenditures incurred in the development of an almond grove. As a result, because of the cash accounting rules referred to above, the expenditures of purchasing, planting, cultivating, maintaining, and developing an almond grove during the early years of the life of the asset can be expensed and the deductions taken currently.

The special cash accounting rules which apply to farming were adopted to relieve farmers of bookkeeping burdens. These rules, however, can be used to obtain current deductions against other income by taxpayers who are not primarily engaged in farming during the period of the development of a grove even though there is no economic loss from incurring the expenses of planting and developing an almond grove. In later years, when the taxable income from the grove increases and the development expenditures are largely completed, the grove in many cases can be sold with the income realized in the form of capital gains subject to a maximum tax rate between 25 percent and 35 percent.

The combination of a current deduction against ordinary income for expenses of a capital nature and the capital gains treatment available on the sale of the almond groves produces significant tax advantages and tax savings for high-income taxpayers. This treatment can also lead to unfavorable economic consequences for the almond industry. It can, for example, result in large speculative tax-motivated plantings of almond groves which bid up the prices of land suitable for the groves. As a result, there also may be an overproduction of almonds that causes declines in their prices. Both effects may operate to the detriment of bona fide almond grove operators who rely upon the income from a grove as their source of livelihood.

The situation in the case of almond groves is substantially the same as that which formerly existed in the case of citrus groves. This was corrected in the Tax Reform Act of 1969 which provided that costs incurred in developing a citrus grove must be capitalized.

In the course of its discussion of this bill, your committee requested the staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation to undertake a study to determine in what other areas similar conditions exist with respect to development expenditures which appropriately should be capitalized but presently are being expensed.

III. GENERAL EXPLANATION

The bill amends the provision of present law (sec. 278) which requires the capitalization of expenditures incurred in developing a citrus grove to also make it applicable to almond groves. This bill provides that the expenditures attributable to purchasing, planting, cultivating,

maintaining, or developing an almond grove must be capitalized, if the expenditures are incurred prior to the end of the third taxable year after the year in which the grove is planted. Thus, expenditures incurred during this period cannot be deducted as a current expense, but instead must be charged to capital account.

This capitalization rule does not apply to expenditures incurred in replanting an almond grove which was damaged or destroyed (while in the hands of the taxpayer) by freeze, drought, disease, pests, or casualty.

The provision applies to trees planted on or after December 30, 1970.

IV—CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 278 OF THE INTERNAL REVENUE CODE OF 1954

Subchapter B—Computation of Taxable Income

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PART IX—ITEMS NOT DEDUCTIBLE

- Sec. 261. General rule for disallowance of deductions.
- Sec. 262. Personal, living, and family expenses.
- Sec. 263. Capital expenditures.
- Sec. 264. Certain amounts paid in connection with insurance contracts.
- Sec. 265. Expenses and interest relating to tax-exempt income.
- Sec. 266. Carrying charges.
- Sec. 267. Losses, expenses, and interest with respect to transactions between related taxpayers.
- Sec. 268. Sale of land with unharvested crop.
- Sec. 269. Acquisitions made to evade or avoid income tax.
- Sec. 270. Limitation on deductions allowable to individuals in certain cases. [repealed]
- Sec. 271. Debts owed by political parties, etc.
- Sec. 272. Disposal of coal or domestic iron ore.
- Sec. 273. Holders of life or terminable interest.
- Sec. 274. Disallowance of certain entertainment, etc., expenses.
- Sec. 275. Certain taxes.
- Sec. 276. Certain indirect contributions to political parties.
- Sec. 277. Deductions incurred by certain membership organizations in transactions with members.
- Sec. 278. Capital expenditures incurred in planting and developing citrus *and almond* groves.
- Sec. 279. Interest on indebtedness incurred by corporation to acquire stock or assets of another corporation.

SEC. 278. CAPITAL EXPENDITURES INCURRED IN PLANTING AND DEVELOPING CITRUS *AND ALMOND* GROVES

(a) GENERAL RULE.—Except as provided in subsection (b), any amount (allowable as a deduction without regard to this section), which is attributable to the planting, cultivation, maintenance, or development of any citrus *or almond* grove (or part thereof), and which

is incurred before the close of the fourth taxable year beginning with the taxable year in which the trees were planted, shall be charged to capital account. For purposes of the preceding sentence, the portion of a citrus *or almond* grove planted in one taxable year shall be treated separately from the portion of such grove planted in another taxable year.

(b) EXCEPTIONS.—Subsection (a) shall not apply to amounts allowable as deductions (without regard to this section), and attributable to a citrus *or almond* grove (or part thereof) which was:

(1) replanted after having been lost or damaged (while in the hands of the taxpayer), by reason of freeze, disease, drought, pests or casualty, or

[(2) planted or replanted prior to the enactment of this section.]

(2) *planted or replanted before—*

(A) *December 30, 1969, in the case of a citrus grove, or*

(B) *December 30, 1970, in the case of an almond grove.*

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